

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Manchester District Library	County Washtenaw
Fiscal Year End May 31, 2006	Opinion Date August 23, 2006	Date Audit Report Submitted to State September 10, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

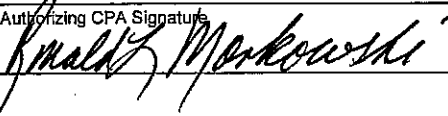
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Markowski & Company, CPAs		Telephone Number 517-782-9351	
Street Address 2880 Spring Arbor Road		City Jackson	State MI
		Zip 49203	
Authorizing CPA Signature 		Printed Name Ronald L. Markowski	License Number 1101006941

MANCHESTER DISTRICT LIBRARY

FINANCIAL STATEMENTS

MAY 31, 2006

MANCHESTER DISTRICT LIBRARY

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CERTIFIED PUBLIC ACCOUNTANTS
ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

INDEPENDENT AUDITOR'S REPORT

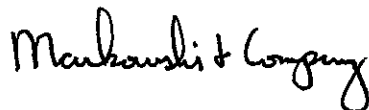
Board of Trustees
Manchester District Library
Manchester, Michigan

We have audited the accompanying financial statements of the **MANCHESTER DISTRICT LIBRARY**, as of and for the year ended May 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Manchester District Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Manchester District Library as of May 31, 2006, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The Management's Discussion and Analysis, required supplementary information, and additional information presented on pages 2-5, 16-17 and 18 respectively are not a required part of the basic financial statements but are supplementary financial information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



MARKOWSKI & COMPANY CPAs

Jackson, Michigan

August 23, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Using this Annual Report

As management of the Manchester District Library, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of the Manchester District Library for the fiscal year ended May 31, 2006.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

Manchester District Library as a Whole

The Library has net assets of \$479,834. A substantial portion of the Library's net assets (23%) reflects its investment in capital assets (e.g. books, leasehold improvements, machinery and equipment and furniture and fixtures). The Library uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending.

Net assets increased by \$66,091 or 16% during the year ended May 31, 2006. Revenues increased by \$36,775 or 11%, this was a result primarily of increased property tax revenues and an LSTA grant received during the year.

Library use as measured by circulation, patron visits, and computer use, has continued to grow at a rate of better than 10%. During calendar year 2005, the Library checked out and renewed 65,979 items, 14% more than in 2004. We counted approximately 23,000 visitors during the year, 10% more than in the previous year, and saw 33% more computer use with 7,447 sign ins at our public workstations. So far in 2006 we've continued this pace of growth, and we expect to check out more than 70,000 items this year.

In 2005-2006, the library continued to expand its most popular collection areas, including audio books and movies. Our DVD movie collection now numbers more than 550 titles, and we have more than 2,000 titles on VHS. Audio books continue to be high-circulating items, and we have approximately 350 audio books on CD and 850 audio books on tape. Our youth services librarian expanded the "new reader" collection of juvenile fiction this year and focused on updating the juvenile non-fiction collection to assure its currency and information value to students. For adults I've focused on our fiction collection and parts of the non-fiction collection that circulate well, such as consumer health and personal finance.

Spending on staffing has grown again this year. With general library use climbing, we continue to schedule at least 2 circulation desk workers at all times. I've increased the number of hours assigned to our high school pages, since increased circulation leads to more shelving and as we get busier desk staff have less time to devote to that task. It is also important to note that 2005-2006 was my first full year working as Director. In 2004-2005 I took 3 months off for maternity leave, which contributed to less spending that year on salaries.

Management's Discussion and Analysis

Governmental Activities

The Library does not have many options to increase revenue. The Library's total government activity revenues were \$389,799 this year. Property taxes were \$336,459 or 87% of the total revenues. Property tax increases are controlled by various State laws that restrict the increase in taxable values to amounts at or below the rate of inflation. State revenue sharing and penal fines were \$19,113 or 5% of total governmental revenue. The remaining 8% of revenue is comprised of contributions and grants, fines and fees and investment income. The Library's budget is expended largely on salaries and benefits with expenditures of \$158,624 or 49%, and rent and utilities on its facilities of \$49,605 or 16%. The remaining budget is being dedicated to other functions such as Library programs, operating supplies and interlibrary automated services. The Library also sent \$24,512 or 8% of its property tax revenues to another Library as part of a service agreement.

In a condensed format, the following table shows Net Assets and Change in Net Assets as of May 31, 2006 and 2005:

	Governmental Activities	
	2006	2005
Assets	\$ 494,380	\$ 421,815
Liabilities	14,546	8,072
Net Assets		
Invested in Capital Assets, net	110,165	65,490
Restricted	5,612	5,655
Unrestricted	364,057	342,598
Total Net Assets	\$ 479,834	\$ 413,743
Revenues		
Property taxes	\$ 336,459	\$ 314,129
State Shared Revenues	5,538	6,073
Fines and fees	8,864	5,966
Penal fines	13,575	13,825
Investment income	8,885	4,441
Contributions and grants	14,006	5,915
Other revenues	2,472	2,675
Total revenues	389,799	353,024
Expenditures		
Culture and recreation	323,708	275,697
Change in Net Assets	\$ 66,091	\$ 77,327

Library expenditures this year showed some differences from the previous year. One of the most noticeable was the increase in the amount spent on salaries, which is due to additional staffing for increased patronage. Rent and utilities also increased as a new shared usage agreement became effective October 1, 2005. Depreciation expense also increased as GASB 34 implementation requires books and materials to be capitalized and depreciated over their useful lives, as the Library continues to purchase books and materials, depreciation on those books and materials increase.

Management's Discussion and Analysis

The Library's Fund

The fund financial statement provides a more detailed analysis of the Libraries operations, which is focused primarily on the current use of available resources.

The General Fund relates to the general governmental activities of the Library, which are financed by property tax levies, by distribution of State Shared revenues, penal fines and from fees charged. The General Fund's fund balance increased \$23,155 largely due to increased property tax revenues and an LSTA grant. Total expenditures in the General Fund were \$366,644 this year, including salaries and benefits of \$158,624 or 44%, and books and related materials of \$43,358 or 12%.

General Fund Budgetary Highlights

The original budget adopted for the Libraries General Fund projected a \$26,000 decrease in fund balance. As the year progressed, and actual events took place, an amended budget was adopted to reflect the changing financial picture.

The final General Fund budget projected a \$26,000 decrease in fund balance as changes were made as needed. Actual results ended with an increase of \$23,155 in fund balance.

Capital Asset and Debt Administration

At the end of the May 31, 2006 fiscal year, the Library had \$110,165 invested in its capital assets, net of accumulated depreciation.

A summary of capital assets follows:

	(Net of Accumulated Depreciation)
Leasehold improvements	\$ 3,988
Furniture and fixtures	18,092
Equipment	13,720
Books	54,130
Audio books	13,004
Movies and CD's	7,231
	<hr/>
\$	110,165

At the end of the year the Library had no debt outstanding.

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

We have great plans for the 2006-2007 fiscal year!

- In August we will have our first ever Staff Training Day, an opportunity for staff to spend the day together somewhere other than the library. We will take the opportunity to focus on customer service issues and the challenges we're facing as library use accelerates.
- The Village and the Library are in the midst of construction to install an elevator. This was an essential step towards making the building accessible to users, and we're looking forward to its completion by November. The Library will share the cost of the project by paying an elevator charge in addition to rent. We've accounted for this charge in our new budget.
- The Board has committed to spending some of our reserves on remodeling the library. When the Library moved to its current location, it was designed to house a collection of about 16,000 items. We're now at 32,000+ items and some reorganization is in order. To that end the Board will be hiring an architectural or interior design firm during the fall and we'll make improvements before the end of the fiscal year in May.
- Library programming, particularly for children, continues to be very popular. We intend to continue the same level of programming as last year, and hope that we can accommodate more and more varied programming once the library's remodeling is complete.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show our accountability for the money received. If you have questions about this report, or would like additional information, we welcome you to contact the Library's Director at 912 City Road (PO Box 540), Manchester, Michigan 48158.

FINANCIAL STATEMENTS

MANCHESTER DISTRICT LIBRARY
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
MAY 31, 2006

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF NET ASSETS
ASSETS:			
Cash and cash equivalents	\$ 358,200	\$ -	\$ 358,200
Investments	5,612	-	5,612
Property taxes receivable	16,137	-	16,137
Prepaid rent	4,266	-	4,266
Capital assets, net	-	110,165 (a)	110,165
Total assets	\$ 384,215	\$ 110,165	\$ 494,380
LIABILITIES:			
Accounts payable	\$ 6,219	\$ -	6,219
Accrued payroll	6,588	-	6,588
Noncurrent liabilities -			
Compensated absences	-	1,739 (b)	1,739
Total liabilities	12,807	1,739	14,546
FUND BALANCES:			
Reserved	5,612		
Unreserved/Undesignated	365,796		
Total fund balance	371,408		
Total liabilities and fund balance	\$ 384,215		
NET ASSETS:			
Invested in capital assets			110,165
Restricted			5,612
Unrestricted			364,057
Total net assets			\$ 479,834

(a) Capital assets are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the government-wide statement of net assets.

(b) Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the governmental fund.

The accompanying notes are an integral part of these financial statements.

MANCHESTER DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2006

	<u>GOVERNMENTAL FUND</u>	<u>RECONCILING ITEMS</u>	<u>STATEMENT OF NET ASSETS</u>
REVENUES			
Property taxes	\$ 336,459	\$ -	\$ 336,459
State shared revenues	5,538	-	5,538
Fines and fees	8,864	-	8,864
Penal fines	13,575	-	13,575
Investment income	8,885	-	8,885
Contributions and grants	14,006	-	14,006
Other revenues	2,472	-	2,472
Total revenues	<u>389,799</u>	<u>-</u>	<u>389,799</u>
EXPENDITURES			
Culture and recreation	<u>366,644</u>	<u>(42,936) (a)(b)</u>	<u>323,708</u>
EXCESS OF REVENUE OVER EXPENDITURES	23,155	42,936	66,091
FUND BALANCE/NET ASSETS, BEGINNING OF YEAR	<u>348,253</u>	<u>65,490</u>	<u>413,743</u>
FUND BALANCE/NET ASSETS, END OF YEAR	<u><u>\$ 371,408</u></u>	<u><u>\$ 108,426</u></u>	<u><u>\$ 479,834</u></u>

(a) Capital outlays are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the statement of activities. Depreciation for the year ended May 31, 2006 was \$19,982 Capital outlays capitalized were \$64,656.

(b) Increase in non-current liability for compensated absences payable is an expense in the statement of activities but is not an expenditure in the governmental funds.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Manchester District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Manchester District Library:

A. REPORTING ENTITY

The Manchester District Library (the "District") was formed May 22, 2000 by four participating municipalities, which include the Village of Manchester, the Townships of Bridgewater, Freedom and Manchester, under the District Library Establishment Act of 1989, PA 24.

The District has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Library reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources.

D: ASSETS, LIABILITIES, AND NET ASSETS

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Restricted Assets

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

Capital Assets

Capital assets, which include books and related materials, property and equipment, are defined by the Library as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.) Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs or normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Compensated Absences

It is the Library's policy to permit the director to accumulate earned but unused sick pay benefits. All sick pay is accrued when incurred in the Statement of Net Assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. All annual appropriations lapse at fiscal year end.

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Library Board. The budget for the General Fund is adopted on a line item basis. Variances with the Final Budget are shown on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year ended May 31, 2006, the District incurred expenditures in the General Fund which were in excess of the amounts appropriated. The variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries and wages	\$ 130,130	\$ 136,719	\$ (6,589)

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments of the District can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name.

These surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;
- (6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;
- (7) Obligations described in (1) through (6) as named above is purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- (8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982;
- (9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the District's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Imprest cash	\$ 168
Insured (FDIC)	100,000
Uninsured	<u>258,032</u>
	<u>\$ 358,200</u>

The District's deposits are in accordance with statutory authority.

The District's investments consist of a single certificate of deposit with a maturity of greater than 90 days. The Library chooses to disclose its investments by specifically identifying each. As of May 31, 2006, the Library had the following investment:

<u>Investment Type</u>	<u>Maturity</u>	<u>Market Value</u>	<u>Rating</u>
Investment - Certificate of Deposit - Insured (FDIC)	7/10/2008	<u>\$ 5,612</u>	S&P-AAA

Investment and deposit risk

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Library minimizes this risk by investing in shorter term securities and holding them to maturity.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Concentration of Credit Risk - The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. 100% of the Library's investments were invested in a single certificate of deposit with a maturity of less than one year.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized; collateralized with securities held by the pledging financial institution; or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

The custodial credit risk for investments is that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Library will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Library's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: Michigan law (MCL 129.33) requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by public agencies.

NOTE 4: PROPERTY TAXES

Property tax revenues shown in the General Fund reflect the 2005 levy of 1.05 mills on the assessed valuation of property located in the District as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the State at an estimated 50% of current market value.

The 2005 levy covers the District's fiscal year of June 1, 2005 to May 31, 2006. The 2005 tax levy became a lien on properties on December 1, 2005, and was substantially collected in early 2006. Taxes became delinquent on March 1, 2006.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: CAPITAL ASSETS

Capital assets, which include property, equipment and books and related materials, are depreciated using the straight-line method over the following useful lives:

Books	3 to 5 years
Audio Visual	3 years
Furniture and Fixtures	5 to 7 years
Equipment	5 to 10 years
Building Improvements	15 to 30 years

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Being Depreciated:				
Leasehold improvements	\$ 2,124	\$ 2,220	\$ -	\$ 4,344
Furniture and fixtures	19,067	1,684	-	20,751
Equipment	7,991	8,577	-	16,568
Books	29,361	38,680	-	68,041
Audio books	7,837	8,354	-	16,191
Movies and CD's	5,890	5,142	-	11,032
Subtotal	<u>72,270</u>	<u>64,657</u>	<u>-</u>	<u>136,927</u>
Less Accumulated Depreciation for:				
Leasehold improvements	101	255	-	356
Furniture and fixtures	860	1,799	-	2,659
Equipment	678	2,170	-	2,848
Books	3,376	10,535	-	13,911
Audio books	784	2,403	-	3,187
Movies and CD's	981	2,820	-	3,801
Subtotal	<u>6,780</u>	<u>19,982</u>	<u>-</u>	<u>26,762</u>
Net Capital Assets Being Depreciated	<u>\$ 65,490</u>	<u>\$ 44,675</u>	<u>\$ -</u>	<u>\$ 110,165</u>

NOTE 6: PENSION PLAN

The District contributes to a defined contribution pension plan which covers the Director. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to a participant's account and the returns on investments of these contributions. Contributions made by the District vest immediately, the district contributes 10% of the Library Director's gross earnings to the pension plan.

During the year ending May 31, 2006, the District's required contributions amounted to \$4,611.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RENTS

The District Library signed a shared use agreement with the Village of Manchester for the use of Library facilities. The current agreement extends through May 31, 2015, with the Library having the option to extend this term to December 31, 2015.

During the term of the lease, the Library will pay rent in the sum of \$3,241.33 monthly. The Library will also pay a utility fee in the sum of \$900.00 monthly. The utility fee will be reviewed annually. If the fees exceed the amounts paid by the Village, the excess shall be credited against successive sums due. If the fees were less, the Library shall reimburse the Village for those sums. Utility fees for each successive year shall be adjusted annually to reflect the Village's projected actual expenses for the following year. Unless otherwise agreed by the parties, the sums to be paid by the Library shall be 33% of the total utility bills.

During the term of this agreement the Library shall pay the Village each month a common area maintenance fee \$124.66.

The future minimum lease payments under non-cancelable leases at May 31 are summarized as follows:

Year Ended May 31,	Amount
2007	\$ 51,192
2008	51,192
2009	51,192
2010	51,192
2011	51,192
Thereafter	<u>204,768</u>

NOTE 8: RESERVED FUND BALANCE/RESTRICTED NET ASSETS

The amounts reported in the Statement of Net Assets identified as restricted net assets are comprised of the following:

Restricted for donor imposed restrictions	<u>\$ 5,612</u>
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The amounts reported in the Governmental Funds Balance Sheet as reserved fund balance are comprised of the following:

Reserved for donor imposed restrictions	<u>\$ 5,612</u>
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NOTE 9: RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATMENTS**

NOTE 10: SUBSEQUENT EVENTS

The Library agreed to a shared use agreement with the Village of Manchester for use of the Library facilities as of October 1, 2005. As part of the agreement the Library agreed to share the cost of a new elevator to be installed in the building. A monthly elevator funding fee will be added to the monthly rental fees in the first month after final approval for use is obtained by inspecting agencies. The elevator fee will be calculated based upon the total cost of the elevator, using a 20 year life, a 60% Library benefit, and the years remaining in the shared usage agreement based on the United States Treasury 10 year bond rate at the time of the elevator completion. The elevator is scheduled to be completed in 2006.

REQUIRED SUPPLEMENTARY INFORMATION

MANCHESTER DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues				
Property taxes	\$ 334,102	\$ 334,102	\$ 336,459	\$ 2,357
State shared revenues	6,000	6,000	5,538	(462)
Fines and fees	6,000	6,000	8,864	2,864
Penal fines	12,000	12,000	13,575	1,575
Investment income	3,100	3,100	8,885	5,785
Contributions and grants	14,900	14,900	14,006	(894)
Other revenues	500	500	2,472	1,972
Total Revenues	<u>376,602</u>	<u>376,602</u>	<u>389,799</u>	<u>13,197</u>
Expenditures				
Salaries and wages	130,000	130,130	136,719	(6,589)
Social security	9,945	10,372	10,372	-
Health insurance	7,000	7,000	6,922	78
Retirement contribution	4,500	4,611	4,611	-
Books	27,600	27,960	27,465	495
Periodicals	3,250	3,250	2,397	853
Audio-visual	14,000	13,650	13,496	154
Automation	21,000	21,000	20,488	512
Contracted services:				
Contract labor	4,000	5,000	4,662	338
Auditing services	3,000	4,480	4,480	-
Accounting	1,000	1,000	929	71
Legal fees	500	1,050	1,050	-
Contracts-Clinton Library	25,000	25,000	24,512	488
Professional memberships and dues	600	626	603	23
Postage	2,000	2,000	1,536	464
Telephone	2,500	2,500	2,293	207
Transportation	1,000	1,000	489	511
Rent	44,000	44,000	37,528	6,472
Insurance	4,000	4,000	3,546	454
Utilities	15,500	15,500	12,077	3,423
Coop State aid	4,000	1,148	-	1,148
Internet lines	6,500	7,771	7,771	-
Subtotal	<u>330,895</u>	<u>333,048</u>	<u>323,946</u>	<u>9,102</u>

The accompanying notes are an integral part of these financial statements.

MANCHESTER DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
Expenditures (Continued)				
Subtotal from previous page	330,895	333,048	323,946	9,102
Programs	4,000	4,000	3,039	961
General operating supplies	7,000	10,736	10,589	147
Staff education	3,000	3,000	1,890	1,110
Refunds	250	250	212	38
Marketing	4,000	4,000	3,272	728
Contingency	3,500	443	-	443
Capital outlay-Leasehold improvements	20,000	14,465	2,220	12,245
Capital outlay-Equipment	10,000	9,330	8,577	753
Capital outlay - LSTA grant	19,000	19,000	11,215	7,785
Capital outlay-Furniture and fixtures	957	4,330	1,684	2,646
Total Expenditures	<u>402,602</u>	<u>402,602</u>	<u>366,644</u>	<u>35,958</u>
Excess of Revenues over Expenditures	(26,000)	(26,000)	23,155	49,155
Beginning Fund Balance	<u>330,766</u>	<u>348,253</u>	<u>348,253</u>	<u>-</u>
Ending Fund Balance	<u>\$ 304,766</u>	<u>\$ 322,253</u>	<u>\$ 371,408</u>	<u>\$ 49,155</u>

The accompanying notes are an integral part of these financial statements.

ADDITIONAL INFORMATION

MANCHESTER DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED MAY 31, 2006

EXPENSES:

Salaries and wages	\$ 136,719
Social security	10,372
Health insurance	6,922
Retirement contribution	4,611
Periodicals	2,397
Automation	20,488
Contracted services:	
Contract labor	4,662
Auditing services	4,480
Accounting	929
Legal fees	1,050
Contracts-Clinton Library	24,512
Professional memberships and dues	603
Postage	1,536
Telephone	2,293
Transportation	489
Rent	37,528
Insurance	3,546
Utilities	12,077
Internet lines	7,771
Programs	3,039
General operating supplies	10,589
Staff education	1,890
Refunds	212
Marketing	3,272
Compensated absences	1,739
Depreciation	19,982
Total expenditures	<u>323,708</u>

REVENUE:

Property taxes	336,459
State shared revenues	5,538
Fines and fees	8,864
Penal fines	13,575
Investment income	8,885
Contributions and grants	14,006
Other revenues	2,472
Total revenues	<u>389,799</u>
Excess of Revenues Over (Under) Expenditures	66,091
Net Assets - Beginning	<u>413,743</u>
Net Assets - Ending	<u>\$ 479,834</u>

The accompanying notes are an integral part of these financial statements.

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD

JACKSON, MICHIGAN 49203

PHONE (517) 782-9351

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K. LAVERNE MARKOWSKI, C.P.A.
RONALD L. MARKOWSKI, C.P.A.
DOUGLAS E. ATKINS, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS
ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

August 23, 2006

To the Board of Trustees
Manchester District Library

We have audited the general purpose financial statements of Manchester District Library for the year ended May 31, 2006, and have issued our report thereon dated August 18, 2005. Professional standards require that we provided you with the following information related to our audit.

Our responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated August 7, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Manchester District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Manchester District Library are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended May 31, 2006. We noted no transactions entered into by Manchester District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by Manchester District Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on Manchester District Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Manchester District Library's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Trustees
Manchester District Library
Page Three

Difficulties Encountered in Performing the Audit

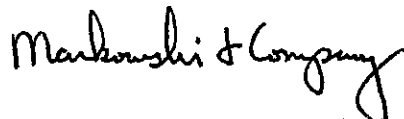
We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

During our audit we did not discover any material weaknesses in the Library's internal control system design or operation, other than the lack of segregation of duties. We did encounter certain items which we believe warrant the Board's attention. These items are discussed in the attached memorandum of comments and recommendations.

This information is intended solely for the use of the Board of Trustees and management of Manchester District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Markowski & Company".

MARKOWSKI & COMPANY, CPAs

MANCHESTER DISTRICT LIBRARY
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED MAY 31, 2006

SEGREGATION OF DUTIES

Because of the limited size of the Manchester District Library's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Library. Library management needs to continue to exercise appropriate management oversight to help compensate for the lack of staff. The only corrective action would be to hire additional staff, which is not practical.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. As detailed in Note 2 of the financial statements the Library incurred a single expenditure in excess of amounts appropriated in one area. The Library does an excellent job in monitoring and amending the organizations budget. The amount was minor and insignificant and was the result of payroll being accrued at May 31, 2006.

We recommend that the Library continue to monitor and amend the budget as necessary.